Washington Gas Energy Services
A Washington Gas Affiliated Company

13865 Sunrise Valley Drive, Suite 200
Herndon, Virginia 20171-3401
Phone: (703) 793-7500
Fax: (703) 793-7301

April 18, 2003

Via Electronic Delivery Only

Susan D. Larsen, Deputy Director
Division of Public Utility Accounting
State Corporation Commission
1300 East Main Street
Richmond, VA 23218-1197

Re: *Commonwealth of Virginia, ex rel. State Corporation Commission In the Matter of Developing Consensus Recommendations on Stranded Costs Case No. PUE-2003-00062*

Dear Ms. Larsen:

WGES will be unable to attend the April 21 meeting. Permit us to submit written observations to comments instead. We plan to remain active in the process.

General

The present discussion is about conceptual approaches only. Based on the comments filed so far it would appear that further work would be needed to flush out the high-level approaches before the group. That said, it would still be problematic to present the joint-utility proposal (if that connection could be made) as a way to calculate stranded costs. It is instructive to read all the insightful comments provided. While parties are free to stake their positions, an honest debate should point to the correct approach to the problem, at the very least. The concept of lost revenues will not be lost in a calculation of stranded costs. While the Restructuring Act is silent on computing stranded costs, the LTTFs' charge and the Commissions' order are clear.

Evidence exists of generation-related assets and liabilities that were written off in 1999 as uncollectible through capped rates by some incumbents, after-tax charge to earnings were also made at that time and regulatory assets created to represent the amount recoverable from capped rates. It would seem that there is a body of information that could be shared in confidence to facilitate this process. To that end, the LTTF REQUESTED ACTION in No.6 speaks of a confidential pact to prevent "unauthorized disclosure of information regarding incumbent **utilities' stranded costs and amounts received to offset stranded costs** that is provided in confidence to the work group." (emphasis added).

The vexing question is what did each utility consider to be stranded costs prior to the commencement of transition in 2000? Revenues from both capped rates and wires charges should be compensatory of net stranded costs as ruled prior to restructuring. Perhaps, a lot of work could be reduced if the utilities could provide in confidence their pre-restructuring stranded costs estimates, write-offs taken (which would no longer be part of the new calculus), regulatory assets created and the amounts that have been collected to-date. Surely, one must have information regarding such an extraordinary item as stranded costs that permanently affected the utility regulatory bargain of long standing. The information provided would show what mitigation strategies were/are used to further reduce stranded costs and the expected amounts to be recovered from the breach of the regulatory bargain/contract between the utilities/shareholders and the Commission due to competition. The special case of no wires charges may have to be treated as unique.

The Restructuring Act merely allowed utilities to use whatever stranded cost proxies they liked and to structure revenue collection in capped rates and/or wires charges. This midway excise would recalibrate how much stranded costs are collected through July 1, 2007. There would be no changes in the revenue collection process and procedures already in place, namely capped rates or wires charge. Most importantly, doing this analysis (or by negotiations after a review of data/information) would permit the Commission, the utilities and the LTTF to ascertain if capped rates could be terminated for any utility after January 1, 2004 (with utility cooperation). The process will preserve revenue neutrality for incumbents during the transition period.

Comments on Selected Working Group Views

Dominion Virginia Power

We do not object to Dominion Virginia Power's (DVP) view that Staffs' methodology does not adequately capture the complexity of computing stranded costs. The method does not pretend to mask such complexities either. It is only an approach but a better approach to the problem of the "Virginia twist" to stranded costs treatment. DVP also mentioned the impact of default service on stranded costs calculation. Once stranded costs are recovered by July 1, 2007 and true default service goes into effect, then the issue of generation-related assets that are rendered uneconomic by competition ceases to be a problem. DVP further correctly cited the need for flexibility thus "...It is essential that rigidity not be incorporated in one component of the transition process that may unintentionally undermine the ultimate objective." (DVP page 5).

Will the utilities show any flexibility with regards to the stranded costs question? We beg to differ with the assertion that no actual determination of stranded costs is necessary. A month-to-month dependency on wires charges can not supplant the need to know the underlying amount of stranded costs. The revenue requirements of each utility through the transition period were set prior to restructuring. We are not aware of any suggestions to neither change that fact nor initiate a rate case, "even if the existing rates were believed to be too high." The apparent drumbeat and fear of impending doom, are just that.

Allegheny Power

It is possible to be sympathetic to the position of Allegheny Power (AP) due to its settlement that waived its rights to wires charges and asset transfer in August 2002, but only partially so. As AP sees it, "the MOU established capped rate levels for AP, and AP would <u>recover whatever stranded costs existed through capped rates</u>." (emphasis added). The recovery of <u>whatever</u> stranded costs that may exist is precisely the problem for all incumbent utilities in Virginia. Since AP is recovering stranded costs from capped rates and there is no competitive vigor in the marketplace, would that portion of stranded costs cease sooner than July 1, 2007? By DVPs' method, AP would not have to do anything since it has no wires charges. However, it would appear that APs' settlement might not fully obviate it from the over/under recovery question, functional separation notwithstanding.

Others

We believe that the comments that point to a stranded cost quantification solution where none existed before are in keeping with the wishes of the LTTF. This likeminded views were articulated by the Consumer Counsel, Constellation NewEnergy, TXI-Chaparral, the Virginia Citizens Consumer Council and Christian and Barton, LLP. The views of DVP, American Electric Power and those of the Cooperatives fall short of the mark and should be rejected. We do not object to the suggestions made by TXI-Chaparral to add, "just and reasonable, prudently incurred non-mitagable generation costs plus fair return" to Staffs' proposal. The single most important thing is how to forge a consensus and move forward given the gaps that have been identified.

Respectfully submitted,

Ransome Owan

Ransome E. Owan, Ph.D.
Director, Regulatory and External Affairs
Washington Gas Energy Services, Inc.